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David J. Strachman

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International

Hamas Goes For The Gold

Nathan Vardi, 03.09.06, 6:00 AM ET

NEW YORK - Hamas might not be looking very far to find a pitch for its money troubles. The radical Islamic group is believed to be eyeing the old assets of one-time rival Yasir Arafat, the late Palestinian Authority president.

Arafat set up a slew of off-balance-sheet investments during his rule. But before Arafat died in 2004, a reform-minded finance minister, Salam Fayyad, managed to grab some of those holdings and consolidate them into the Palestine Investment Fund. The fund even published Ernst & Young-audited financials, which showed it held \$1 billion of assets at the end of 2004, including big stakes in the Cairo-based cell phone high-flier **Orascom Telecom** and **PALTEL**, a Palestinian telecommunications company. Arafat made the investments by diverting \$900 million from Authority bank accounts, according to a 2003 International Monetary Fund report.

The investment fund is now believed to hold \$1.4 billion in assets, which would be very helpful to a new Hamas government. Designated a terrorist group by the U.S., Hamas stunningly won the Palestinian legislative elections in January and is now getting ready to form a new government. But Hamas is already struggling to find a way to finance the Palestinian budget now that the U.S., Israel and other foreign donors are threatening to stop providing funds to a Hamas-run Palestinian Authority.

At the same time, Hamas is refusing to make political concessions, such as formally recognizing Israel, and won't quell fears that transferred funds will be used to bankroll terrorism. This means there is little chance Israel will continue to transfer the vital \$60 million per month that it collects on behalf of the Palestinian Authority, like the value-added taxes paid by Palestinians on purchases made in Israel.

The Palestinian Authority is already in a money crunch; it ran a budget deficit of at least \$500 million last year, largely due to President Mahmoud Abbas' decision to raise public-sector salaries before the country's elections. That move broke agreements the Palestinian Authority had with donors, particularly the European Union, which then froze its supplementary commitments. Abbas, a political rival to Hamas known as Abu Mazen, made up for the Palestinian part of the shortfall by taking out about \$500 million in bank loans secured by investment-fund assets. Negotiations are going on for the current government to take out more loans to fund the authority until Hamas takes over. Before the World Bank released \$42 million on Tuesday to help pay public-sector salaries, James Wolfensohn, an international envoy to the Middle East, had stated that the Palestinian Authority could go bankrupt within weeks.

These financial difficulties make it more likely that the PIF will eventually finance Hamas. U.S. State Department officials and other diplomats are scrambling to figure out what will happen to the fund.

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"There will definitely be a fight over the fund," says James Prince, president of the Los Angeles-based Democracy Council, a nonprofit that helped set up and audit the fund. "Abu Mazen is trying to take control of it--the fund's existence and what legally can be done is a question people are grappling with right now."

The PIF was set up by Fayyad to fund long-term economic development projects and provide economic stimulus to the West Bank and to poverty-stricken Gaza. Its primary purpose is not to fund government budgets; the fund was originally designed to be out of the reach of the Palestinian Authority president so that Arafat could not tap into it. The PIF is run by a board of directors chaired by the finance minister and made up of independent Palestinians from the private sector. For a while, its managing director was Arafat's money man, Mohammed Rashid, but he has been replaced by Mohammed Mustafa, a former World Bank official.

Through intense pressure, Abbas did manage to get the fund to take out the loans that helped pay for the recent Palestinian Authority budget shortfalls. Fayyad resigned his positions at the finance ministry and investment fund in order to run in the Palestinian parliamentary elections, in which he won a seat. Hamas could draft new legislation to give its government control of the fund, or it could swipe it outright.

Such a move would strengthen Hamas' hand in the short term, but on balance, it would leave the Palestinian people poorer.